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Public colleges consider privatization as a cure for the common recession

By ERIC KELDERMAN

As state tax revenues plummet, some lawmakers and higher-education leaders are once again looking at loosening the bonds between state governments and public colleges to save money and give colleges the freedom to bolster their bottom lines in new ways.

Over the past two decades, college officials have often lamented the growing need to secure money outside of appropriations. But the continuing economic crisis has led to a new urgency on the part of some public colleges to shed more of their ties to states, despite the mixed results of previous such efforts.

Operating more like private institutions not only would be a buffer from the recession and the volatility of state budgets, some college officials argue, but also may well be vital to the survival of many public colleges.

Those that seek to thrive in the future must earn money from a variety of sources and continually cut costs in ways that don't harm the quality of instruction, says Philip J. Hanlon, vice provost for academic and budgetary affairs at the University of Michigan at Ann Arbor, which gets just 7 percent, or $320-million, of its revenue from the state.

While no public college is likely to free itself entirely from fiscal ties to its state, many of the nation's largest public institutions, like Michigan, have evolved to operate nearly like private colleges. Public research universities in Colorado, Montana, New Hampshire, Oregon, and Vermont are so reliant on tuition that students are paying, on average, for more than 70 percent of the cost of their education, compared with a national average of 51 percent, according to the Delta Project on Postsecondary Education Costs, Productivity, and Accountability, a nonprofit group that studies how colleges spend their money. Students at private research universities pay, on average, nearly 56 percent of their educational costs, the project reported.

Seeing their share of state funds dwindle after the 2001-2 recession, public universities in Colorado, Massachusetts, and Virginia forged compacts with their governments, gaining operating freedom in exchange for reductions in public aid. Those moves have pushed them toward greater fiscal autonomy.

Diminishing State Aid

The trend toward privatization has been widely discussed by public-college officials since at least the early 1990s, especially during nationwide recessions when state revenues have plummeted.

Over those two decades, states' spending on health care and prison costs has climbed rapidly. So, even as state support for public higher education has increased in real dollars, it has diminished as a proportion of most state budgets. State aid also has fallen as a share of institutional revenues, surpassed by the growth of other sources of revenue, including tuition, federal research grants, private donations, and income from outside businesses, including medical hospitals, summer camps, even campus parking fees.

Now, with states facing budget shortfalls totaling as much as $350-billion in the current and coming fiscal years, lawmakers are looking hard for ways to trim spending on higher education. Even the federal stimulus package, which includes nearly $40-billion to offset cuts to education, has not done much to ease the pressure, which has prompted some lawmakers in Colorado and Michigan to suggest cutting flagship universities loose from state budgets entirely. While those ideas have not gained much traction, they reignited discussions about whether it was desirable, or even possible, for large universities to maintain their public status.

The University of Michigan already has only minimal fiscal ties to the state. The university has lost the equivalent of $100-million in state appropriations, adjusted for inflation, since 2002, Mr. Hanlon says. Over the same period, its general-fund budget has grown by nearly $300-million, to more than $1.4-billion, supported by healthy revenues from its hospital and other auxiliary businesses. Tuition, too, accounts for a fast-growing share of revenues, increasing from half of the general fund in 2002 to more than 64 percent now, he says.

Michigan has trimmed its annual spending by more than $135-million over the past seven years by closing storage facilities for food and supplies used on the campus (vendors now deliver needed products directly), creating its own insurance company, and improving energy efficiency, among other steps.

At the same time, some state lawmakers question why they should still underwrite the university at all as it raises more private dollars and increases tuition. A nine-member legislative panel created last year to suggest major budget cuts included a recommendation to turn the university into a private institution, although some panelists thought that was not a realistic option. Similarly, a Colorado lawmaker proposed this year that the four public research universities there would perform much better if they were off the state dole. But that proposal, too, died quickly.

Privatization as a Euphemism

One of the surest signs of de facto privatization in public higher education is the increasing share of educational costs being covered by students through tuition and fees, says Jane V. Wellman, executive director of the Delta Project. A report by the group last year showed that tuition and fees accounted for 60 percent or more of educational costs at public research universities in 14 states, with the highest share — 83 percent — being borne by students at the University of Vermont.

The rapid growth of tuition has raised concerns that some colleges are more concerned about their profit margin than their public missions. Patrick M. Callan, president of the National Center for Public Policy and Higher Education, says privatization is basically a euphemism: "It's just a code word for 'Let us raise tuition as much as we want.'"

Daniel M. Fogel, president of the University of Vermont, says the Delta statistics obscure the fact that two-thirds of his students are from outside of Vermont and pay a much higher rate of tuition — about $25,000 a year — which helps subsidize the cost for resident students, who pay an average of $9,300 a year once financial aid is included. Nearly 30 percent of residents get enough aid to pay nothing to attend, he notes.

While Vermont's appropriations to higher education have increased by 14 percent over the past five years, the high tuition for nonresident students is still needed to finance the university's public mission, Mr. Fogel says. The land-grant institution produces more than one-third of Vermont's teachers and nearly 40 percent of its physicians.

With the heavy reliance on tuition, he says, the state gets a good deal, and the university is more protected from economic storms than are public institutions in many other states. Vermont pays for about 17 percent of students' educational costs at its research university. Florida, by contrast, covers nearly 60 percent, according to the Delta Project. As a result, even a relatively small cut by lawmakers in Florida can have a substantially larger impact than it would in Vermont.

"In many ways we operate like a private university," Mr. Fogel says, noting that 39 of his institution's top 50 competitors for applicants are, in fact, private institutions.

Less Public By Design

While privatization has occurred in an ad hoc fashion in most of the country, a few states have moved purposely down that path, with mixed results.

Virginia approved a program in 2005 that gives its public colleges varying degrees of fiscal and administrative autonomy in exchange for agreeing to hold down tuition for resident students and to meet benchmarks in areas such as retention and graduation rates.

The revised relationship between the state and its public colleges was a direct response to the economic downturn at the beginning of this decade, says Samuel E. Jones, vice president for finance at the College of William and Mary.

His college, along with the University of Virginia and Virginia Tech, were given the greatest degree of freedom from government rules on purchasing, building-code review, and managing information technology, among other areas. The three institutions saved nearly $7-million on construction projects alone in two years, according to a legislative study released in November.

The current economic crisis will test whether the new system really protects the institutions during a recession and gives them enough flexibility to make up for any state budget cuts, Mr. Jones says.

Things have not worked out so well in Colorado, which also changed its relationship with public colleges after the last recession, in an effort to free them from the state's constitutional limits on revenues and spending for government operations.

In 2004 lawmakers established a program that gives public colleges money based on the number of residents who enroll and sets up specific contracts to pay for higher-priced graduate and professional-degree programs in the health sciences. The plan was designed to spark competition and reward institutions that were most successful at enrolling in-state undergraduates, but it also acted to make public colleges operate more like private institutions.

David Skaggs, executive director of the Colorado Department of Higher Education, says the main problem with the state's approach to public colleges has been that in tight budget times, lawmakers still don't have enough money to reward institutions that have increased enrollment.

But even if college officials or state lawmakers wanted to turn public universities into private entities, it would be difficult to completely sever the public ties. In Colorado, voters would have to approve a constitutional amendment before the University of Colorado could become a private entity. In most cases the state owns public institutions' land and buildings, notes Mr. Callan, of the National Center for Public Policy and Higher Education. And few public colleges could build an endowment that would be big enough to replace even the small percentage of money they get from the state.

What's more, while moving toward privatization may work for some flagship institutions, it isn't likely to be an option for smaller regional public colleges, says Mary Cullinan, president of Southern Oregon University, which enrolls about 5,000 undergraduate and graduate students, and whose endowment was valued at $14.6-million in June 2008. (By comparison, the University of Michigan's endowment was valued at more than $7.5-billion at the time.)

Ms. Cullinan was quoted by local newspapers in September as saying that her institution needed to wean itself from state support after several years of difficult budgets. Higher-education appropriations were slashed during the 2001-2 recession and did not recover to the same dollar levels until the 2008 budget year. Oregon faces a $442-million revenue shortfall for the current budget year and has cut $46-million from its higher-education appropriations.

She says that she did not intend to recommend that Southern Oregon go private, but that she would like it to increase its enrollment of out-of-state students, so that it is "less rocked by the winds of change in state funding." Tuition for undergraduates from outside of Oregon is listed at about $22,000 for 15 credit hours, more than three times the price for state residents.

Southern Oregon has also taken steps in recent years to increase its fund raising and engage in more public-private partnerships. But those efforts will not come close to replacing the nearly $15-million — about 20 percent of the institution's budget — that the state provides, Ms. Cullinan says.

"Small, regional universities like ours need state funding," she says. "We need to have a balance."